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Responsible Taxation

The Ontario Approach

by the
HONOURABLE JOHN ROBARTS
Prime Minister of Ontario

and the
HONOURABLE CHARLES MACNAUGHTON
Treasurer of Ontario and Minister of Economics



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SUMMARY

1. The Ontario position on tax sharing is not new. At the Federal-Provincial Tax Structure Committee meeting in 1966, Prime Minister John Robarts stated: "The Ontario Government strongly believes that the basic requirement in the area of federal-provincial tax sharing is to secure a division of tax resources which closely matches the distribution of expenditure responsibilities between the two levels of government". His view echoed the words of former Prime Ministers George A. Drew and Leslie M. Frost.
2. Ontario is not looking for handouts from Ottawa. Nor does it ask the federal government to produce revenues for provincial needs. Ontario is prepared to levy its own taxes; all it seeks is the tax room required to finance the services for which it is constitutionally responsible.
3. A comprehensive five-year projection undertaken by the Ontario Government reveals that provincial expenditures will grow by 75% while revenues will rise by only 40% between 1968-69 and 1972-73. The resulting fiscal gap cannot and will not be tolerated.
4. The Ontario Government has undertaken an exhaustive review of its present programs and operations in a full-scale effort to effect economies and efficiencies.
5. In addition to the need for more revenues to meet the growing costs of its present programs, Ontario must secure further funds from progressive tax fields to accomplish the reforms recommended by the Ontario Committee on Taxation.
6. Ottawa continues to advise the provinces to "raise your own taxes". This would result in a rapid pyramiding of income tax increases which could cripple the growth potential of the province and its economy.
7. Ontario wants a partnership of governments in Canada which recognizes that, while there are three taxing jurisdictions, there is only one taxpayer. No longer can any government tax in isolation.
8. Ontario believes that the federal and provincial governments should not be engaged in a process of competition for tax sources. Rather, we must establish intergovernmental machinery that can adjust to changing priorities within controlled limits of total taxation.
9. If this co-ordinated and integrated approach cannot be achieved, however, Ontario will not abdicate its role under Confederation. It will not accept a branch plant function that would deny essential services to its people.

50,000 printed

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6/2/69
**Taxation
speeches
in booklet**

Excerpts from seven recent speeches by Premier John Robarts and Provincial Treasurer Charles MacNaughton on the subject of federal-provincial financial relations have been immortalized in an 18-page booklet being mailed to 50,000 Ontario residents, at a cost of 20 cents a booklet.

Entitled Responsible Taxation—the Ontario Approach, the booklets are going out on the eve of next week's federal-provincial constitutional conference, at which Ontario is expected to restate its demands for more tax fields.

A Government spokesman said yesterday the booklets were assembled by the Treasury Department in response to thousands of letters and queries from persons who read press reports of the speeches and wanted more details.

The spokesman said the booklets are going to all the inquirers and those persons on a government mailing list for similar material. The list includes municipal officials, educators, business and professional men and various organizations.

Printing the booklets set the Government back only \$3,000, or 6 cents a copy, but sending them out by first-class mail is costing more than twice as much—14 cents per envelope.

An official in the Public Works Department mailing room at Queen's Park said the mailing is to be completed tonight.

Included in the booklet are parts of three speeches by the premier and four by the Provincial Treasurer.

cial Treasurer.
for a moment with
Mr. Speaker, I should like to
LEADER DAVID LEWIS:
NDP PARLIAMENTARY



ONTARIO

OFFICE OF

THE PRIME MINISTER AND PRESIDENT OF THE COUNCIL

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Toronto, Ontario,
February 1, 1969.

Dear fellow Ontarian:

In recent months a great deal has been said and written about public financing in Ontario.

News reports have reflected the concern of the Government of Ontario and the other provinces that the share of tax revenues generated by Canadians and received by the provincial and municipal governments does not recognize their priorities. This situation did not arise overnight. It has been with us for many years, recognized by the Government of Ontario but largely ignored by a succession of governments in Ottawa.

To meet many requests for a more detailed explanation, and so that you may more fully understand what we have been discussing, this booklet has been prepared. It contains excerpts from several addresses by myself and the Treasurer of Ontario. Included is the presentation of the Government of Ontario to the federal-provincial financial conference on November 4, 1968.

I hope you will take time to read these pages. What is set out is of great importance to every taxpayer of Ontario.

Yours very truly,

John P. Robarts

John P. Robarts.

THE CHALLENGE — FINANCIAL RESPONSIBILITY

** Excerpt from address by the Honourable John Robarts, Prime Minister of Ontario, to The Canadian Club of London, September 18, 1968*

The greatest single challenge to a government is to ensure its fiscal responsibility. While fiscal responsibility can be interpreted in several ways, I choose to believe it means an honest dollar of value on behalf of the taxpayer for every dollar he contributes in taxes with a limitation of spending programs to match our society's ability to pay. Of even greater importance, it means that a government must look well into the future to determine the requirements of those years in terms of expendable wealth and to plan its approach to the fulfilment of those requirements.

In recent years we have developed sophisticated tools to assist governments in assessing where we are going and what will be required of us. The various levels of government in Canada have established research groups to investigate these matters and we have benefited greatly from their advice and experience.

Evaluation of taxation needs

The entire history of our federal-provincial conferences has reflected a preoccupation with fiscal problems, although this aspect of the conferences has not been widely publicized. The Tax Structure Committee was established by a federal-provincial conference in 1964 to evaluate the trends in expenditures of the federal, provincial and municipal governments, the problems involved in financing this spending, and an assessment of appropriate tax fields to assist these levels of government in meeting their responsibilities.

The Government of Ontario entered into the work of the Tax Structure Committee with enthusiasm. We were convinced that this would provide the proper path toward a system of public finance in Canada which would allow all governments to meet their spending responsibilities while, at the same time, enhancing the opportunities for growth by private enterprise. It is disappointing that the constructive work of that committee has not been reflected in federal tax-sharing policies. However, its work is one of the foundation stones for the reform of our taxation system which is now being considered.

Steps toward tax reform

Another important guideline is the report of the Carter Royal Commission on Taxation. Still another is the report of the Ontario (Smith) Committee on Taxation, which examined the taxation and revenue systems of the province, our municipalities and school boards. Its recommendations will help us formulate a more rational system of taxation in line with what we see will be the needs of the 1970's. The subsequent study by the Select Committee of the Legislature evaluated the Smith recommendations and a wide variety of submissions from all interested parties across the province. Finally, within the government itself there has been an intense examination of the ramifications of the many recommendations and suggestions.

From a structural point of view, the Government of Ontario has established a Department of Revenue to deal with tax collection. We have strengthened the Treasury Department to assure closely controlled budgeting and co-ordinated policy determination. The Treasury Board has also been strengthened to give us firm control over departmental spending within the funds voted in the provincial budget.

Throughout this period we have also been conducting an intensive examination of the fiscal position of

the government. This review of programs and spending has been the most exhaustive ever undertaken in the history of the province. We have examined the position of the federal government and our municipal governments as they affect our provincial position because we cannot conduct our affairs in isolation.

The next five years

In effect what we are doing is preparing ourselves for the situations that lie ahead of us as we look over the next decade. Our specific studies have evaluated what the Government of Ontario can expect in spending responsibilities and tax revenues during the next five years.

We have calculated the revenues we can reasonably expect our system of taxation to produce. We have estimated the level of borrowing we can reasonably undertake. On the other side, we have projected the spending and lending requirements of the Government of Ontario and its agencies. These forecasts of our total anticipated income and our total spending responsibilities have been put together. We now have an overall budgetary forecast covering the period between 1968 and 1973.

We believe the people of Ontario must know the extent of the financial requirements which they will be asked to support. With this background of extensive study and activity over a considerable number of years, I should like to tell you something of the magnitude of the challenge we face.

I would be less than candid if I suggested that what we see ahead is all peaches and cream. Nothing could be further from the truth. We have ahead of us some extremely difficult and important decisions. We must be prepared to move ahead with changes in the structure of our system of taxation. As residents of Ontario we must be prepared to meet heavier demands for tax dollars so that we may fulfil the requirements of our changing and growing population.

While I am being candid about the possibilities, I am also confident that the policies which we have been shaping for some time will greatly assist us in meeting all requirements, without unduly burdening the taxpayer.

We are fortunate to be able to put to use a great deal of research, resulting from the reports of the Smith and Select Committees, which will assist in the rationalization of our provincial-municipal system of taxation. They will also help us in the large task of reorganizing our municipal structure on a regional basis.

We are moving into this area of reform at a time when economic conditions in Ontario have never been better. The people of Ontario, by and large, have never been more prosperous, more healthy and better educated. Employment is high. New industry is moving into the province at a rapid rate and existing industry is expanding. The economy of our province is strong. Our province can, and will, be able to meet any challenge we face.

What do we face?

What, then, is the situation that we face? Our forecasts indicate that under the present tax system total revenues collected by the provincial government will grow by 40 per cent between now and 1973. Since this forecast is based on generous assumptions of economic

growth throughout the period, in line with past growth patterns, it could be optimistic. We do not think it is.

On the other side of the ledger, our forecasts indicate that, when we project present spending patterns, the total expenditures by the government will increase by 74 per cent in the same period of time. This is a rate of growth more than twice that expected of the gross provincial product and almost double the expected increase in revenues. Moreover, it is important to note that this huge anticipated increase in expenditures does not include provision for any major new programs nor any massive additional transfers of provincial tax revenues to the municipalities such as have been suggested by both the Smith Committee and the Select Committee. This forecast of expenditures illustrates the future scale of spending required for the present programs and plans of the Government of Ontario, and vividly illustrates our problem.

With demands for expenditures continually outrunning revenues at this rate, if we were to allow matters to proceed unchecked, the deficit of the Ontario Government would widen enormously. Our forecasts indicate the deficit would increase by more than 500 per cent by 1973. Such a stream of deficits would push our net debt from its present level of approximately \$1.8 billion to over \$5 billion at the end of the fiscal year 1972-1973.

Cannot let this happen

These results of our forecasts add up to what the Treasurer of Ontario has warned will be a financial nightmare. We cannot, of course, permit this to happen. What it presents is a fiscal challenge to the Government of Ontario to plan our long-term programs in such a fashion that we will maintain fiscal control, fiscal order and fiscal responsibility.

This implies several considerations for future action and policy.

First, we reject the idea of running deficits of the magnitude suggested in our forecasts. Deficits, as we all know, must be financed through borrowing or eliminated by means of increased taxation. But there must be limits to both our borrowing and our tax levels. The Smith Committee suggested a nine per cent ratio of net capital debt to provincial domestic product as the general ceiling on our borrowing capacity if we are to maintain our existing high credit rating.

If we apply this ratio to the forecasts for the next five years, we could perhaps undertake new borrowings of up to \$325 million per year by 1973. In view of the world-wide scarcity of capital and in view of massive anticipated borrowing requirements of Ontario Hydro over the same period in order to develop the power required by our industrial expansion, I would suggest that this is an absolute maximum rather than a comfortably attainable level of new borrowing. Even after such maximum tolerable borrowings by the province, the projected financing gap for the period from now until 1972-73 still runs to almost \$900 million.

Second, in terms of tax increases this remaining gap is the equivalent of 24 additional points of income tax or seven additional points of the retail sales tax. While we do not back away from our responsibilities to raise revenues by taxation, clearly such phenomenal increases are unacceptable.

Apart from placing an intolerable burden on the people of Ontario, pushing taxes this high would be self-defeating. It would penalize the capacity of the economy to generate income and restrict the economic growth on which our revenue capacity depends. Since we cannot hope to finance the projected deficit through borrowing and tax increases, this leaves only one way out: the cutting of expenditures.

Controlling expenditures

Although I have come to this alternative last, it is by no means a measure of last resort to be considered by the Government of Ontario. Rather, I have left discussion of this alternative to the end because it is the aspect of our overall fiscal policy which is most difficult and in which we have the least flexibility. As the Treasurer of Ontario clearly documented in this year's provincial budget statement, the spending and lending programs of the Ontario Government are largely made up of fixed, built-in commitments for education, health, housing, aid to municipalities and the other pressing needs of our growing society. Normal growth and rising costs in these essential priority areas almost invariably consume the annual increase in revenues.

To give but two examples, the costs of our hospital insurance program are rising 15 per cent a year while post-secondary education costs are growing by 20 per cent or more each year. The reasons for the rapid expansion of spending in these and other areas are not difficult to find. We have a young and rapidly-growing population, rapidly-expanding urban communities and a dynamic industrial economy. All of these elements create enormous pressures for more schools, more hospitals, more roads, more municipal services, and the financial support to maintain these vital services. These are all programs and services for people and are an integral part of our rapidly growing economy and society. This is why we reluctantly turn to cutting expenditures. Yet any reductions of significant size must come in these areas of education, health, welfare, highways and local aid because this is where the great bulk of our provincial revenues are spent.

The inescapable conclusion which follows from our forecasts is that Ontario must make substantial cuts in expenditures in order to contain its deficits over the next few years within reasonable and responsible limits. As I have indicated, we are now actively engaged in this difficult task. All of our programs are being carefully reviewed and evaluated on the basis of the benefits they bring and the costs they entail.

This exercise will lead to a priority ranking of programs to guide us in the allocation of available funds to the most essential area. At the same time it will indicate those expenditure areas where cuts must be made. This will mean sacrifices and difficult choices among programs which come lower down the scale, even though these programs in themselves are very worthwhile.

All governments face dilemma

The situation which I have just described will give you some idea of the fiscal problems which face governments in Canada today. Let me assure you that Ontario is not alone in striving to find a way out of its fiscal dilemma. All provinces, our municipalities and the federal government are finding it increasingly difficult to finance the expenditure programs which each jurisdiction considers are required by its electorate. The problem is that, in total, governments have been spending faster than our national substance has been increasing. Inevitably, taxes have steadily increased. Public borrowing has made excessive demands on the capital markets.

Let me illustrate with figures. In 1962 all governments combined spent \$13 billion, which represented 32 per cent of our gross national product. Five years later, in 1967, government spending had increased to \$21 billion, which represented 34 per cent of gross national product. This simply means that since 1962 the economy had expanded by a healthy 53 per cent, yet the spending by all levels of government had grown by more than 62 per cent.

This was possible only through greatly increased taxation. During these five years direct taxes on people have doubled while indirect taxes have risen by 65 per cent. This relative expansion of public spending in terms of our ability to produce wealth cannot continue indefinitely.

And yet society is continuing to lead us into areas which require enormous government expenditures. To name but a few, pollution of our air, water and soil will cost millions upon millions of dollars, to be spent both by governments and industry. But we must spend this money and we must control pollution. To acquire all of the land which we are urged to do, so that we may provide urban transportation systems, housing, recreational facilities, and renewal of our cities will be expensive, yet we must meet the problems of urban growth.

The provision of facilities for post-secondary education in the years ahead will require immense sums of money, not to mention the continuously mounting costs of elementary and secondary education. Yet we must ensure that the education of our young people receives our highest priority.

We are being asked continually to increase our expenditures for welfare, in many forms, and for expensive plans of medical and dental treatment. All are important, but all are also expensive.

The public purse

All of these demands must be met from the public purse. However, the public purse has very little elasticity to meet these requirements without some very substantial changes in our present system of financing.

As the Government of Ontario has repeatedly stated for some years, there is only one source of money for all levels of government: the individual taxpayer. It is this taxpayer who must have some control exercised over the composite of government expenditure.

In my view this will be possible only when all levels of government view their fiscal affairs in a total framework. Only by restraining the growth of total government expenditures by all three levels of government — federal, provincial and municipal — can there be any hope of keeping the total tax burden within reasonable limits. Ontario believes that such overall restraint in spending can be achieved only if all governments co-ordinate their spending within an agreed framework of priorities.

Priorities essential

In other words, what we must do is establish priorities within which the spending of all three levels of government must fit. We can then agree on a division of tax fields which will enable each government to finance its responsibilities effectively.

For some years, the Government of Ontario has been urging the federal government to sit down with us and sort out the spending priorities we need if we are to make living in Canada a meaningful experience.

We cannot tolerate the imposition of spending programs on our already overburdened facilities which are developed and forced upon us without regard for our capacity to pay, and without regard for their effect upon our ability to carry out existing programs. To say that each level of government must willy-nilly go its own way, develop its own programs without regard for others, and tax without regard to taxes levied by other levels of government is, in my opinion, a complete abandonment of responsibility to the individual taxpayer of our country. We hope that the conferences which will be held in the months immediately ahead will permit us to take such an approach as we come to grips with the situations I have outlined to you.

Hard decisions ahead

In the meantime, in the discharge of our responsibilities to the people of Ontario we are examining, as I have said, our spending programs. We are also preparing for revision of our sources of revenue to meet our needs. There will be much discussion of the proposed changes in the weeks and months ahead. There will be decisions to be taken which will not meet with unanimous approval. But we feel that our people must know the facts of the situation as they are in order that they may fully understand the reasons for our decisions.

Certainly, more than ever before, it is necessary for our people to understand that all the services and things asked for from government must be paid for. Our task is to make that burden of tax upon all elements of our community as equitable and as fair as possible.

As we approach these challenges, it seems obvious to me that at all levels of government we must be prepared to make changes. Some of them may seem drastic. We cannot be content to see our solutions in terms of the experiences of the 1950's and 1960's. The challenges facing us now and which will develop in the 1970's are quite different from anything we have ever faced before.

ONTARIO'S HOUSE IN ORDER

** Excerpt of address by the Honourable Charles MacNaughton, Treasurer of Ontario and Minister of Economics, to the Tenth National Conference of the Chartered Institute of Secretaries, London, September 20th, 1968*

Queen's Park is in the midst of a full-scale critical review of all its present programs and operations. Our intensive examination covers activities of every department and agency and encompasses the full range of operational areas including staff, organization, equipment and accommodation.

We have put new policy-setting machinery in motion to apply sophisticated techniques to the selection of priorities and the direction of restraints. We are applying stringent criteria to the consideration of new programs. We are bearing down on government costs in an exercise which I believe to be the most exhaustive and thorough economy drive ever undertaken by an administration of this province.

Total examination

Prime Minister John Robarts ordered this total examination at a meeting of all Cabinet Ministers, Deputy Ministers and senior financial officials in our Treasury Building on July 22, 1968. The Prime Minister asked our Treasury Board to work with all phases of the government to ensure that every tax dollar is put to its most effective use. We are examining every facet of our operations, from mailing rooms to management, from warehouse facilities to welfare programs, from utilization practices to university projects.

The branch-by-branch review of existing programs is concentrated on a critical assessment of goals and on achievement of maximum efficiency in administration. Our Treasury Board has issued a directive outlining the probing questions which must be applied to every activity. Let me quote to you some of the questions that apply to existing programs:

- Has the original objective of the program been met?
- Can the program be discontinued or curtailed?
- Is there a more economical way of achieving or maintaining the same result?
- If the objective has not been achievable with present program structure, is it worth continuing?
- Can present vacancies be left unfilled through re-assignment of duties, elimination of non-essential procedures and/or improved techniques?
- Can expenditure on temporary help be reduced by greater inter-branch, inter-office co-operation?
- Are staff, equipment and supplies properly controlled and correctly utilized?

In reviewing proposed, improved or new programs or activities, we are asking similarly tough questions — and again I quote from the Treasury Board directive:

- Is the change essential at this time? Is it the most efficient way of achieving the improvement having regard to both the costs and the anticipated benefits?
- Have the proposals been tested on a pilot basis to ensure that the expected results will be achieved?
- Can the additional costs be offset by a cut-back on an existing program or activity?
- Can the additional costs be restricted by making greater use of existing facilities and/or personnel?

Improved productivity

In addition to these searching examinations, our departments have been requested to achieve a minimum improvement in productivity of 2 per cent over 1968-69 levels in their estimates for 1969-70. This must be realized by a reduction in administrative expense despite an anticipated price increase of 3 per cent over the fiscal year. This general efficiency goal relates only to administration, not to grant programs or activities which are essential to our municipalities, school boards and our people.

I emphasize that this productivity improvement target is in addition to, not part of, our critical review of programs and operations.

The departmental efforts will be augmented by Treasury Board's integrated analysis of budgetary estimates and program review. Teams of consultants from the Advisory Services Division of the Board's Secretariat and Personnel Management of the Civil Service Department are working with individual departments to effect significant savings. Where necessary, these efforts are being supplemented by outside consultants.

Operational costs of government

I must emphasize here, however, that no matter how successful this intensive exercise may be, it will not resolve our government's challenge. The administrative and operational costs of the government itself account for only 20 per cent of the total budget. The remaining 80 per cent is made up of major statutory obligations, including grants to school boards, municipalities and hospitals, major transfer payments to people, including family allowances and premium assistance for health insurance plans, and major transfer payments to institutions, primarily universities and colleges of applied arts and technology.

Fiscal austerity

Since these obligations seriously restrict the flexibility of our budget, Ontario faces a period of fiscal austerity of unprecedented proportions.

It becomes obvious that Ontario, as other provinces, faces tough choices and hard decisions. There is absolutely no question that Ontario faces the prospect of a cut-back in existing programs and a delay in the implementation of new activities.

To meet this requirement, my Department of Treasury and Economics has developed a priority rating for all of our activities to serve as a master guide toward the development of our budget for the coming year. Our new Cabinet Committee on Policy Development has been applying this priority rating list to the proposed expenditures for our 1969-70 fiscal year. Guidelines already have been issued to our departments as a result of the continuing discussions of this top level committee which is chaired by the Prime Minister.

Governmental management

The economy measures now in process for the coming year are being reinforced by major developments in the broader field of governmental management in Ontario. We are accelerating the implementa-

tion of program budgeting throughout our government and we are intensifying our efforts in the field of management science.

Program budgeting focusses our expenditure analysis on objectives rather than on operations. It relates input to output, costs to benefits and taxes to services. It is a systematic management tool which compares total costs to total benefits to evaluate the effectiveness of investments and energy. Program budgeting encourages comparison of alternative means of providing the services and benefits which modern society demands. The examination compares the private as well as the public costs of alternatives and highlights the long-term as well as the intermediate costs and benefits.

Ontario has established a Management Science Branch in its Treasury Board Secretariat to accelerate this process.

In our development of management tools, we are co-operating with other governments within Canada and the United States. I am pleased to say that we in Ontario are considered by our colleagues elsewhere to be among the leaders in the field of program budgeting.

We are encouraging our sister provinces in Canada to use the opportunity presented with the introduction of program budgeting to standardize expenditure data on a national accounts basis, in co-operation with the Dominion Bureau of Statistics. This will enable us to utilize our corresponding data for inter-governmental co-ordination of fiscal policy and economic planning.

We in Ontario believe this co-ordinated approach to total governmental services and expenditures is the most effective way of making our Canadian federalism work efficiently.

OUR NATIONAL FISCAL CHALLENGE

* *Excerpt from address by the Honourable John Roberts to the Canadian Good Roads Association, Toronto, October 2, 1968.*

It is obvious that in Canada today we are in need of fundamental—possibly dramatic, possibly drastic—changes in our system of public finance. Changes are mandatory if we are to cope with the basic fiscal problems facing our three levels of government.

Briefly, the basic problems are these:

first, the deteriorating financial position of the provinces and municipalities because of their inadequate share of growth tax revenues;

second, the urgent need to find an effective method of controlling rapidly-increasing government expenditures;

third, the need for sweeping tax reforms.

The matter of government spending has been causing concern at all levels of government for some years. Unfortunately there has not been a general recognition that public spending must be slowed down if future tax levels are to be held within tolerable limits.

The federal government, in company with Ontario and other provinces, has announced that it is going to undertake strenuous budget reduction. Yet, one must be puzzled why, at the same time, the federal government refuses to reconsider what is perhaps the largest expansion of all, namely universal medicare. Despite an urgent request by the premiers of the provinces, the Prime Minister of Canada will not convene a conference of leaders of governments to discuss the medicare program. Massive spending initiatives by the federal government, such as medicare, not only rob provincial budgets of any flexibility, but also undermine any real progress toward overall control of expenditures by all governments and fail utterly to recognize provincial priorities.

Goals and priorities

It seems obvious to me that a mechanism must be found through which all governments can reach a consensus on the goals and priorities we need for expenditures. There is no place for unilateral decision-making. Only within an agreed framework can we hope to coordinate our expenditures and develop effective and national restraints on spending. The control of spending by each government without regard for the action of other governments, as we now are doing, destroys the very idea of overall priorities for public spending.

Similarly, controls applied only to certain particular areas—for instance, the current concentration on the rapidly growing programs to which both levels of government contribute, such as hospital insurance and post-secondary education—are bound to distort the situation. In fact, given the financial problems of the municipalities and increasingly of the provinces, unco-ordinated efforts can only result in cutbacks in the very public services that rank in the forefront of the nation's priorities of education, health, urban transportation, housing and pollution control.

At the heart of the increasingly severe financial strains being felt by the provinces, and in turn their municipalities, is the inadequacy of the existing tax-sharing agreements.

The basic defect

The basic defect of the present arrangement is well known. The federal government enjoys the bulk of those tax revenues which automatically increase as our country and economy develop, such as corporate and personal income taxes, while the provinces and the

municipalities possess the slower growing and regressive revenue sources, such as sales taxes, gasoline taxes and taxes on real estate.

Yet in spending responsibilities, it is the provinces and municipalities which are responsible for the rapidly growing areas, such as education, health, welfare, highways and resource development, which form the bases upon which our prosperity is growing.

The expenditures under federal jurisdiction grow much more slowly, leaving scope for the creation of new programs, which may very well burden the provinces. Thus, there is a basic imbalance between the revenue sources and the expenditure responsibilities of the two levels of government.

The origin of the tax-sharing problem goes back to the Second World War. At that time, to help Canada wage the war, the provinces made the direct tax fields available to Ottawa on what was considered to be a temporary, war-time basis. What we have been asking ever since the war, and what we are again asking, is that Ottawa return to us a fair share of these growth tax fields so that we can wage the peace.

The federal position

Ottawa has countered past efforts by the provinces to get a better tax-sharing arrangement by claiming that it must maintain its occupancy of shared tax fields for fiscal policy purposes, in order to be able to exercise control over the economy. The Government of Ontario maintains that this claim does not stand up either in theory or practice. What is required for federal fiscal leverage is not a substantial occupancy of the income tax field but rather control over the collection, rates and structure of the tax. The income tax changes of 1965, 1966 and 1968 have demonstrated that Ottawa could get along with much less than it presently retains and still operate an effective policy for the stabilization of the economy.

At past federal-provincial conferences dealing with fiscal matters there has been a preoccupation with the short-term problems and financial difficulties facing the federal government. This has diverted attention from the main task of correcting the tax-sharing imbalance. These short-term situations will always be present whenever governments sit down to negotiate financial arrangements. Regardless of the deficit prospect of the federal government for next year, the long-term outlook clearly indicates that the federal government will be in a much more comfortable financial situation than the provinces, largely because it has major occupancy of the growth tax fields.

This was verified by the projections of the Tax Structure Committee, a joint federal-provincial project, and again in a background study by the Economic Council of Canada. I should like to refer to this study of the Economic Council, which stated:

“The indicated increase in federal revenues is far larger than committed increases in expenditures under existing programs, or the new or changed programs suggested in the MacPherson, Gill and Hall Royal Commission reports. These results would suggest that if the economy expands at the rates outlined to 1970 . . .” (I would note here that it has actually exceeded those rates) . . . “the federal government would have revenues to consider such alternatives as reducing federal tax rates, undertaking new functions, making extensive changes in

federal-provincial financial arrangements or debt repayment”.

From this statement you can see that the federal government can indeed afford a much more generous tax-sharing arrangement with the provinces.

The solution

In suggesting massive tax transfers, the Government of Ontario is not proposing that the federal government should do the taxing so that we may spend the money. In our view, the solution to the problem of growing provincial and municipal taxation and deficits does not lie with the provincial governments alone. Surely it makes good sense for Canada to allocate a major portion of the fastest growing revenue sources to those levels of government where the real growth requirements for public expenditures rest. Strong, viable and progressive municipalities and provinces are absolutely prerequisite to a strong, viable and progressive Canada.

Ontario's responsibility

Failing a satisfactory outcome to this round of tax-sharing negotiations, Ontario will have no choice but to reassess its whole position with respect to the tax fields which are jointly occupied now. Clearly our responsibility is to provide the essential programs and services required by the people of Ontario. If we cannot secure through negotiation adequate financial resources to meet these responsibilities—including the important responsibilities of our municipalities—within the present framework, then the Government of Ontario will have to seriously consider moving to an independent system where we control and collect our own income taxes. This option, which is ours to take under the British North America Act, may be the only way open to Ontario to secure sufficient revenues.

This could prove to be an unsatisfactory solution for Canada. It would result in the fragmentation of the system of taxation used in Canada. It would result in progressive increases in the total level of taxation across Canada. It would result in intergovernmental

tax competition and conflict. Such conflict could destroy the prospects for fiscal policy co-ordination and probably would frustrate any attempt at comprehensive tax reform. How badly it would damage the social fabric of Canada is a matter of conjecture.

Surely, movement towards more reasonable tax-sharing adds up to a lesser and far more sensible price than the creation of a tax jungle. But this is the difficult decision we will face.

Taxation reform

The third aspect of our federal-provincial fiscal environment is tax reform. A viable system of tax-sharing is vital to the success of any federal tax structure. Further, reforms must be implemented at all three levels of government. It is apparent to me that there must be maximum co-ordination of these separate efforts to ensure that the final over-all result is indeed a sound new tax system, designed to meet the needs of all Canadians in the late 1960's, the 1970's and beyond.

The answers to yesterday's problems are not good enough. We must meet tomorrow's challenges with a taxation system and fiscal strength appropriate to them. In the end our efforts must be complementary, not contrary. We must strive for maximum agreement in all the overlapping areas and seek to find harmony in our individual efforts to the end that the final product is indeed a sound, new tax system, a system which is equitable and efficient, a system which will raise the funds required for reasonable expenditures by governments as agents of the people and which will accommodate the financial requirements of each level of government. Taken together, this set of common fiscal problems amounts to a national fiscal challenge. The Government of Ontario believes this calls for a concerted national response.

It is not a question of federal government against the provinces, or vice versa. It is a question of the total interest of Canada. We have several levels of government but only one set of national problems, and one set of taxpayers.

THE MUNICIPAL MALAISE

** Excerpt from address by the Honourable Charles MacNaughton to the Municipal Housing Workshop, the Lakehead, October 10, 1968*

Ontario stands more firmly than ever on the case it has made for a more realistic share of the progressive tax returns. Our own studies, now effectively reinforced by impartial findings of such independent bodies as the Federal-Provincial Tax Structure Committee and the Economic Council of Canada, have shown that the costs of our constitutional areas of responsibility are growing far faster than the taxation revenues available to us. Correspondingly, the long-term outlook for the federal government indicates that its tax fields will yield much more than it needs to finance the responsibilities it was given under The British North America Act.

Ontario believes that, if we are going to achieve balanced growth at reasonable tax rates, this distortion must be remedied either through a reallocation of responsibilities or through a better distribution of tax revenues, or a combination of both.

Municipalities suffer most

Ontario takes this position in full recognition of the responsibilities which fall heavily on the shoulders of our municipalities. We know that our municipalities and their property taxpayers are bearing the brunt of the burden of our present imbalance in tax sharing. They are the real losers in this governmental tug of war.

Although Ontario has been increasing its financial assistance to municipalities by significant amounts each year, it has been unable to prevent rising taxes at the local level. Let us remember that municipal taxes rose by over 10 per cent in 1967, on top of rapid increases in previous years.

These increases have been checked temporarily by our introduction this year of the Municipal Tax Reduction Program and our assumption of the costs of administration of justice. All of us realize, however, that these are only temporary solutions. The municipal pressures will soon overtake this relief and local taxpayers will find themselves once again facing the threat of devastating tax increases at the local level.

Municipalities key to future

You know that both the Smith Committee and the Select Committee on Taxation recommended further financial aid to municipalities. They proposed that the province raise the average level of education grants to 60 per cent of school board expenditures. They want both the provincial and federal governments to pay property taxes on buildings and institutions that are now exempt. In addition, these committees suggest that the province should provide more capital funds for municipal projects.

The Ontario government agrees with these recommendations in principle. We would like to put them into effect because we appreciate that without the fundamental services provided by the municipal government this province and this nation cannot hope to achieve its potential development.

The studies I mentioned earlier, however, show that far from being able to undertake new measures of relief to our municipalities we face the extremely difficult task of attempting to maintain the present level of assistance, unless there is a very decided shift in the allocation of taxation revenues.

During the coming year, Ontario residents and companies will pay nearly \$4 billion in income taxes.

Ontario's share of this total is only \$1 billion, a large part of which we transfer to our municipalities.

To put it in another way, the two levels of government which provide the majority of priority services for growth and development receive only 25c out of every \$1.00 collected from these growth tax fields.

Ontario supports equalization

Here, again, I don't want to be misunderstood. Ontario does not object to an equalization system under which we make contributions toward less fortunate provinces. Ontario recognizes its senior role in Confederation and appreciates the benefits we receive from a strong national economy. However, as the Economic Council of Canada warns in its fifth annual review, we must guard against retarding the rate of national economic growth by shifting too many resources from higher- to lower-income regions.

In putting Ontario's tax case to the people, I do not wish to play the role of an adversary to the federal government. I much prefer that Ontario be regarded as a full partner with the Government of Canada on one side of us and our municipalities on the other flank. However, unless we can engage in a co-operative and conscientious review of our respective revenue positions and a similar review of our respective expenditure responsibilities, and the disparities that exist between them, then Canada indeed stands at a critical crossroads.

A continuation of the unilateral approach to these problems will not solve them, in my opinion. They cannot be dealt with any longer in isolation.

Spirit of partnership

I am equally convinced that a review of our individual operations, in a spirit of partnership, will reveal many duplications in our efforts which involve very substantial administrative and other costs. If we eliminate these duplications, we can save our mutual taxpayers many thousands of dollars.

My concept of intergovernmental fiscal co-ordination revolves around the premise that there is an absolute amount of revenue available to all governments of our country at any time. This is the total pool of taxation and other revenues raised for public services, the aggregate of all funds paid by Canadian taxpayers to their three levels of government. This absolute amount must be shared equitably among governments according to priority needs; it cannot be guarded jealously by any single jurisdiction.

This partnership approach forms the basis for Ontario's case on tax-sharing. We are not looking for gifts; we are searching for solutions. We do not want gratuitous handouts; we seek a viable federalism.

Let me stress these points by phrasing them in different ways to dispel certain suggestions that have been made about our position. Ontario is not "crying poor" or bluffing its case for the sake of political advantage; our projections are accurate and our concerns are legitimate. Nor are we "playing a game" with the federal government on some sort of financial chessboard; these problems are much too serious and much too real to be resolved on the basis of gamesmanship.

Priorities essential

In restraining our expenditures and at the same time pleading for priorities, Ontario again has the sup-

port of that independent body, the Economic Council of Canada. In its latest review of the economy, the Council states: "... although total government expenditures must grow at a more moderate pace over the next few years than in the later stages of the 1961-66 expansion, substantially increased resources are required in a number of critical areas of social capital investment. These include universities, hospitals, transportation and the distressingly inadequate facilities of many of our urban municipalities." These are the very services which are causing the pressures in the provincial-municipal sphere.

Canada, in a governmental sense, is no more and no less than the sum of all its municipalities just as in

the population sense this nation is no more and no less than the sum of all its individual citizens. Our people cannot enjoy being citizens of Canada if they cannot live comfortably in their municipalities. They cannot live in houses or apartments unless their municipalities can provide water, power, sewerage, drainage, roads, schools, health facilities, and all of the essentials to a good environment.

Federalism must be a fusion of governmental activities which enables a country to undertake a balanced program of social and economic progress. Ontario wants a working partnership, embracing our municipalities and recognizing the responsibilities we share.

THE RESPONSIBLE APPROACH

**Excerpt from speech by the Honourable John Robarts in the Legislature of Ontario, November 28, 1968.*

If the Confederation of Tomorrow Conference proved one thing and nothing else, it proved that there are great areas of this country which are vastly more interested in what is going to happen to them economically than they are in what is going to happen to the constitution. To wander around in the theoretical areas of certain forms of constitutional reform, when you have not solved the economic imbalances from one region to another in this country, will be a very sad exercise indeed. These matters have to proceed together, and we have to solve the problems of our people, whatever they may be. We cannot separate them.

The wide-ranging debate on federal-provincial affairs emphasizes that constitutional review and fiscal economic problems of Canada are inextricably linked together. A satisfactory solution of either is impossible without a satisfactory solution of both. We intend to pursue these crucial matters with renewed vigour.

Reason and moderation

The process of arriving at solutions depends to a great extent on the attitudes of the governments involved. At conferences on these questions, the federal government and the provinces must regard each other as partners in an enormously complex federal system. There can be no room for paternalism, or unilateral action. Provided that attitudes of reason and moderation prevail -- and we should do our utmost to encourage those attitudes -- the Government of Ontario is optimistic about the outcome of the continuing financial and constitutional discussions.

We are not interested in going to Ottawa to any conference to be faced with a cut-and-dried position which has never been discussed, and where we are told to take it or leave it. I think it must be obvious to anyone that this is an attitude that will get us no place. It certainly will not solve the problems of this country. Every day it becomes more obvious that for Mr. Sharp and Mr. Benson to turn to us and say, "Go and impose your own taxes, do what you like, but do not ask us to give you any more room because we are not going to." can lead to situations which I think are very destructive indeed.

Provincial income tax

In this province, we could establish without too much difficulty a very sophisticated fiscal bureaucracy. We could collect our own personal income tax and our own corporation tax. We are big enough to do it, we have the resources and manpower to do it. But what would we create. We could very easily create something that in the hands of some government some day could effectively block any fiscal or monetary policy that the federal government might choose to introduce. This is the type of thing we want to avoid. We do not want to be put in the position where we create competing systems. We must co-operate.

In a country the size of this one with the problems it has and with the more than 20 million people it has, the whole secret to our survival is co-operation and not unilateral action. The provinces have grown up whether or not the federal government wants to accept the fact.

Relief for homeowner

The meeting ground for relationships between the federal and provincial governments will be found in the

decisions we take on the tax structure. The relationship is direct because the extent to which the province can meet the major recommendations of the report of the Ontario Smith Committee on Taxation and transfer part of the burden of the regressive property tax to more progressive tax fields now shared by the federal and provincial governments, will be dependent in large part on the division of revenue from these shared tax fields.

In other words, if we are to relieve the homeowner of the regressive taxes that now rest on him, we have to have more space in the progressive tax field. We have to replace that money from another source. Surely this is what the exercise is all about - where the incidence of tax lies. I do not consider this in any way to be looking for a handout.

Federal-provincial tax-sharing is not only important to finance this shift from the property tax, so that we may increase the equity of the overall tax structure. It is also important if we are to contain total provincial-municipal tax levels and, at the same time, maintain our commitments. If we are to keep the total amount of taxes collected by the municipalities and by the province within reasonable bounds, if we are to meet our commitments, this whole question of federal-provincial tax sharing must enter into the picture. It just simply cannot be excluded.

We are faced with a situation where the distribution of powers cannot mean much if one level of government has the superior revenue capacity and unlimited spending capacity and at the same time is able to initiate new programs and determine the expenditure priorities of other levels of government. The Government of Ontario believes we must simultaneously come to an agreement on the most equitable and efficient distribution of both revenue and expenditure powers.

Medicare

We are being pushed into Medicare, which from the point of view of this government is not necessary in the province at this time and is not one of our top priorities, by a level of government that is taxing us for it before we get it. It has already served notice that five years from now it will, through some arrangement, push the whole thing back on us. Now, what can we expect at the end of five years?

This is worrying because, I would suggest, that with the tax increases the federal government is putting on presently and with its withdrawal from the shared-cost programs, it is going to have very substantial surpluses in a relatively short number of years. What political party can withstand the political pressure of spending surpluses? If we cannot get some rational solution to this problem, we will be fighting with a real financial problem while another level of government will be sitting there ready to repeat the whole performance. It is related directly to the constitutional question of what powers the various levels of government have, as well as what their revenue sources are.

Co-operation and co-ordination

The thing that astonishes me is that here we are about to sit down to try to decide what we are going to do to amend our constitution. Yet, we have never been able to agree on the method by which we are going to do it. In my opinion this should be the first.

When we participate in meetings of Prime Ministers and Premiers, we will present the basic position of the Ontario government. This is: If we want to live in a federal country we must respect the central tenet of federalism, that central and regional governments should each be responsible and sovereign in their own fields. At the same time we recognize that we will never be able to agree on watertight compartments between federal and provincial responsibilities. I think we can do a great deal better than we have done to date.

We must acquire more sophisticated means of inter governmental co-operation and co-ordination of policies. Nevertheless, if co-operation and co-ordination are to work, there cannot be an assumption of superior power which will upset the priorities and decisions of the other governments. There cannot be an automatic assumption that the federal government, the central government in a federal system of government, is the superior power. It is this unstated assumption that leads to most of our difficulties in the field of federal-provincial relations at the present time. There seems to be an automatic assumption that our decisions can be made in Ottawa and we can still have a federal sys-

tem that will function. This means that you change from a federal system to a central system, and this is what we would wish to avoid.

In its attitude, expressed in many fields, Ottawa suggests that it regards the provinces as branch plants of the federal government. These branch plants are expected to carry out programs and policies devised in Ottawa and financially assisted by the federal treasury. The option which the Government of Ontario proposed is to sit down together and jointly work out our spending priorities and to share our revenues on the basis of our spending responsibilities. This position that we have advanced on so many occasions seems to have been rejected.

We now have a choice and we may act as a responsible government by planning our own programs and setting our own priorities. Or we may act as a branch plant of the federal government and react to, and fall in line with, federal initiatives.

Our choice is very clear. We will take what we consider to be the responsible approach on behalf of the people of this province.

THE ONTARIO OPTIONS

** Excerpt of speech by the Honourable Charles MacNaughton in the Legislature of Ontario, December 16, 1968*

I welcome this opportunity to introduce the broad background of the Ontario government's fiscal considerations into the Throne Speech debate. I believe this emphasis can lead to a much more responsible approach to this discussion which, traditionally, encompasses the full concerns of the government and the opposition.

I think it is becoming evident to all observers that the question of what is generally desirable in terms of expanded public service is sometimes proposed outside the context of what is financially feasible, not only in this Legislature but in most other government chambers in Canada.

In recognition of the current and future financial pressures on our operations, I suggest that it may be wise to develop, as a tradition, the practice of presenting a fiscal outlook in the Throne Speech debate, along with a report on current developments affecting the financial affairs of the province. This would put into financial perspective the ramifications of all the proposals presented to this House and provide a background for the budget which follows. By detailing this financial framework in advance of the budget, the members of this House and the people of this province will be able to assess our total government program more accurately and relate the costs of specific recommendations more comprehensively.

Because of the present financial demands at all levels of government and the growing burden of all taxation, I am confident there is greater public awareness today of the need to develop this concept on the broad base of total public spending in Canada. I envision some day that the process of government decisions will start with an analysis of the total expenditure and investment of public funds by federal, provincial and municipal jurisdictions. This total analysis, besides providing Canadians with an integrated picture of government activity and taxation, would serve as the framework for the annual federal-provincial discussions on finance and, ultimately, for the budget plans of each jurisdiction.

I can assure you that Ontario will pursue this goal. We believe it is essential for the development of coordinated, judicious investment of the taxpayers' dollars.

The financial hurdle

Our review of financial demands on Ontario must start with a look at the current state of our operations. Our present expenditure and revenue flows are following closely the estimates presented to this House in March. Our expenditures are expected to exceed revenues by about \$250 million, as forecast in my budget statement last March, a deficit that can be handled without difficulty through controlled borrowing and the use of liquid reserves.

As Prime Minister Robarts and I have stressed repeatedly, our financial base is healthy and strong. The Ontario economy has been remarkably buoyant during 1968. I recall my forecast that Ontario's gross provincial product will increase by at least 7 per cent this year. As of November, it was running at 8 per cent, 1 per cent better than I had anticipated.

Our financial operations are under full control. Our provincial credit has never been better. Our economy is aggressive. Our standard of living remains

among the highest in the world.

Wise government, however, demands more than satisfaction from existing conditions and present operations. This administration, as has its predecessors, recognizes its responsibility to prepare for the future.

To document once again our long-held position that Ontario and our sister provinces are receiving the short end of the revenue stick in Canada, my department earlier this year compiled a detailed five-year forecast of expenditures under present programs and revenues from existing rates of taxation. The result confirmed the legitimate concerns outlined years ago by the former premier of this province, the Honourable Leslie Frost, and the more recent projections of the federal-provincial Tax Structure Committee and the Ontario Committee on Taxation, and in the supporting papers of my last budget.

The Prime Minister and I, in recognition of our responsibility to the people of Ontario, have spelled out the disturbing results of these five-year projections. The fiscal spiral they depict cannot and will not take place, as the Prime Minister has assured the people of this province on many occasions. But our citizens must be aware of the challenge that they, and we, face.

Ontario requirements

This area, however, represents only one of the two principal sources of financial pressure on the province. The other one, equally formidable and paramount in the consideration of tax reform for Ontario, is the cost of relieving the property tax burden by shifting more municipal financing to the provincial treasury.

The funds required to satisfy each of these needs, even in the immediate year ahead, are staggering:

1. If the government accepted the full estimates submitted by our departments for 1969-70, our revenues would fall short by \$600 million. With expenditure increases projected to outrun our revenue growth consistently by almost 2 to 1, this pressure to finance our own budget obviously will get worse with each succeeding year.
2. The cost to the province of undertaking the full municipal-to-provincial shift, envisaged by the Ontario (Smith) and the Select (White) committees on taxation, would amount to \$400 million. This is over and above the costs of reforms already implemented, including the municipal tax reduction program and the takeover of justice administration costs.

The increase in the average provincial contribution toward local education costs to the level of 60 per cent, as advocated by both taxation committees, alone would require more than \$200 million.

The other components of this \$400 million price tag for reform include the costs of providing municipal taxes on exempt properties, higher grants in lieu of property taxes on provincial facilities, an increase in the unconditional grants and in assistance toward health and welfare programs, and the rise in municipal tax reduction grants if the residential and farm taxable assessments were reduced to the proportions suggested by either Smith or White.

The twin pressures on this government — the rising costs of provincial programs and the expenditures

associated with tax reform — would total a cool \$1 billion, or close to a 40 per cent increase over the present budget, if we accepted them.

Obviously, Ontario cannot finance this load with its present tax resources. We cannot find the finances to carry forward, on the scale required, our own provincial programs, many of which involve heavy contributions toward municipal costs. This presents a challenge in maintaining our present commitments to municipalities, let alone undertaking the package of municipal tax relief that has been proposed.

The excessive revenue demands to meet both tax reform needs and rising costs formed the background for Ontario's presentation to the recent federal-provincial meeting of ministers of finance and provincial treasurers.

In 1966, Ontario put forward its case for a reasonable rationalization of federal-provincial finance and our presentation still stands. We have argued for a fairer share of progressive tax capacity, based on a proper starting point in tax division to correct the basic fiscal imbalance between the federal and provincial-municipal levels of government.

Ontario pointed out also that without a more rational distribution of tax powers there is little hope that governments as a whole can contain total tax and debt levels, and allocate total public resources on a priority bases.

Municipal taxes increase

I doubt if anyone needs to be reminded of the consequences of the federal rigidity in 1966. Municipal taxes in Ontario, on average, went up 10 per cent each of the two past years; Ontario's taxes were raised by \$105 million this year; and, irony of it all, Ottawa has proceeded to grab lustily into the income tax base so desperately needed by the provincial jurisdictions.

When our tax-sharing negotiations were resumed last month, Ottawa again refused any reallocation of tax powers to remedy the basic fiscal distortion in Canada. Ottawa's position in short was: "I'm all right, Jack, you hustle out and patch up your own pocket."

In addition, Ottawa advised the provinces that it will limit its financial participation in three vital areas:

- Health and hospital grants will be discontinued;
- Health resources funds will be severely rationed;
- A larger share of health costs for Indians will be thrust on the provinces.

Social development tax impact

The screw has been turned even tighter by Ottawa's October budget which introduced the social development tax. While piously advising the provinces to raise their own income taxes, Ottawa largely preempted that very action by imposing the equivalent of a 9 per cent increase in income taxes themselves, specifically to finance its universal medicare program.

Here is a regressive tax imposed on a progressive source of revenue in such a way that it precludes the hope of relieving the regressive character of the provincial-municipal tax system; in effect, intensifying in two directions the burden of taxation on low-income families.

Ottawa's insistence on medicare is the greatest paradox, the extreme inconsistency. Probably the most devastating of all shared-cost programs, in terms of increasing expenditure, is being forced on a federal-provincial system already staggering from the cost of

existing jointly-financed programs. The financial community has been shocked by the inadequacy of Ottawa's estimating in these fields last year; it will be stunned equally by the unrealistic approach to medicare expenses.

Just last week I received a report from the Canadian Conference on Health Care whose annual survey reveals that the coverage of medical insurance in Ontario has risen to 97.3 per cent as of December 31, 1967. The Ontario citizen, now relatively happy with his health insurance and, for the most part, prepared to look after this obligation by his own means, will start paying the 2 per cent federal medicare tax on January 1, 1969.

I estimate that the taxpayers of this province will contribute \$225 million through medicare taxation during the coming year, more than half the urgent requirement for municipal tax relief and reform.

This immediate burden, heavy as it is, may be relatively small compared to future costs in this field.

A cavalier attitude

I cannot help wondering, in view of the federal government's own tax increases, its persistence on the expensive medicare program and its own budgetary problems, if the federal government demonstrates anything but a cavalier attitude toward the mounting burden on our taxpayers.

Let me point out here that the 9 percentage points represented by the social development tax, plus the suggestion by Ottawa that Ontario levy an additional 5 points of personal income tax, would amount to a 14-point increase in the personal income tax for Ontario in a single year.

Mr. Benson has renewed the federal "17-point offer" as an alternative to the present shared-cost agreements in the fields of hospital insurance, Canada Assistance Plan and general health grants. This offer would give the provinces 17 additional points of the personal income tax, with a corresponding reduction in the federal share, plus an adjustment payment to ensure that the total fiscal transfer to the province is equal to the actual program costs.

While Ontario intends to take another look at this proposal, since in the least it would provide administrative elbow room and perhaps enable more direct control over these costs, the obvious fact remains that this transfer will do nothing to improve the province's net financial capacity. It is merely an alternative arrangement for funds we already receive to meet our commitments in these fields.

Our calculations show that Ottawa's share of Ontario's costs in these three shared-cost programs already amounts to the equivalent of 18 points of the personal income tax and will grow to 20 points and beyond in the 1970's. Although the federal offer includes payments above the 17-point transfer, no suggestion has been made yet as to how long the federal government will commit itself to this compensating payment. Should Ottawa continue its present attitude of hasty retreat from shared-cost fields, Ontario could be left holding the differential bag within a few years. In the light of our own five-year projections, this province cannot afford to lose out at the federal bargaining table.

Options open to Ontario

Failing any significant financial gains at the upcoming federal-provincial meetings, Ontario will be forced to establish an independent course in taxation

and financing. Essentially, two options are open:

1. To continue to develop our priority government services in Ontario and push on with essential reforms;
2. To accept Ottawa's "branch plant" role for the provinces and cut back the level of our services and the range of our reforms.

The first option carries with it some hard decisions. We must be prepared to consider substantial increases in our income tax rates and to derive more sales tax revenues, along with continued concentration on efficiencies and economies. Much higher revenues from the progressive tax fields will be necessary to reform and integrate provincial-municipal tax and expenditure systems toward greater equity and efficiency.

Provincial income tax?

As Prime Minister Robarts has pointed out, it may be necessary for Ontario to establish our own income tax system. We have taken a close look at this option and find that it offers some distinct benefits to the province and our people, as well as to the efficient conduct of our financial affairs and priority setting, although we are also aware of the problems.

The disadvantages include many of the concerns we have expressed to the federal government, increasingly over the past two years, in our appeals for redistribution of tax revenues. A separate Ontario income tax would fragment the Canadian taxation system, lean toward economic balkanization, tend to increase the level of taxation across Canada and encourage inter-governmental competition and conflict in taxation.

Two independent income tax systems in Ontario would lessen the prospects for fiscal policy co-ordination and comprehensive tax reform. They could frustrate, through counteracting changes in rate or structure, both federal and provincial measures to modify or stimulate economic trends.

To these concerns, we must add the costs of bureaucracy and the much greater expenditure and inconvenience of compliance by the private sector.

Nevertheless, other jurisdictions, including our sister province of Quebec and many states in the U.S.A. operate income tax systems independently of the federal authority. For Ontario, this would offer great scope and flexibility in both reforming our tax system and in raising additional revenue.

Ontario would secure control over the provincial tax base, over the income-class structure and over the rates applied to the progressive structure. Under the existing collection agreement, we are denied any opportunity to use the income tax to meet our own objectives.

Ontario could design its own system to vary the overall progressivity of the provincial-municipal tax system *per se*, by direct integration of property, retail sales and income taxes. Property tax relief, for example, could be handled much more efficiently through exemptions from the income tax base. Allowances for home mortgage payments could be provided to lower-income families. The regressivity of the federal social development tax, or any other undesirable aspect of federal taxation, could be offset directly by changes in

our rates. Under our own income tax system, Ontario could develop new and related tax fields involving capital gains and gifts.

Moreover, the reorganization and integration of our provincial-municipal tax system, with its resulting flexibility, offers immense fiscal and economic possibilities for Ontario. The opportunities to stimulate economic development would be enhanced greatly.

Our studies indicate that the option of establishing our own income tax system must be taken seriously.

Tax reform in Ontario

In areas where tax reform is not influenced directly by federal considerations, Ontario is moving ahead rapidly. Over the past year we have established the municipal tax reduction program, now providing effective and welcome relief to homeowners and tenants; taken over the costs of administration of justice and reorganized our fiscal and policy-making machinery. The province is overseeing the reorganization of the structure and financing of our school boards under the program introduced this spring by the Minister of Education. The steps toward reorganization of our municipal structure on a regional basis have been placed before the Legislature by the Minister of Municipal Affairs. The government has every reason to believe that a great deal of co-operation and understanding will be forthcoming from local authorities in these dramatic and essential reforms.

Another vital reform, which has been under intensive study by the Department of Treasury and Economics and the Department of Municipal Affairs, will be complete property reassessment. Measures will be introduced during this session aimed at eliminating the present inequities and anomalies in the property tax base and enabling the new regional governments to develop from a sound and rational fiscal footing.

Finally, we are preparing for major tax structure reform. Our specific objective will be to reduce the regressiveness of our integrated provincial-municipal system to the greatest extent possible. We are not convinced, as our federal counterparts appear to be, that our wealthy people are overtaxed. We are convinced that the burden of taxation must be lifted from those families with low incomes, especially those on fixed incomes which have shrunk from inflation.

We are very much aware of the federal plans to proceed next year with taxation reforms, including changes in the income tax base. While Ontario is anxious to get on with its own program, common sense suggests that consideration must be given to the integration of reforms at both levels in deference to the effect on our mutual taxpayers.

Our conclusion is that the essential interconnections of all these considerations must be brought together in the 1969 budget, which will highlight their total financial implications. The budget, with a further refinement of background and explanatory papers, will show how the government plans to meet the financial challenge. As well, the 1969 budget will set out certain options and underlying plans for long-run structural reforms in our taxation system.

IN SEARCH OF VIABLE FEDERALISM

** Statement by the Honourable Charles MacNaughton to the Federal-Provincial Meeting of Finance Ministers, Ottawa, November 4, 1968.*

This meeting is as important to the future of Canada as any federal-provincial confrontation since World War Two. We can no longer afford simply to reaffirm platitudes about co-operation and co-ordination or indulge in the luxury of theoretical speculation. We have some explicit questions and we expect unequivocal and logical answers. We believe these questions must be answered at the outset if the items on the agenda of this Conference are to have any meaning.

Our whole purpose, in this exercise, is not to debate which government must face the issue of raising taxes but, rather, to define the best route to a viable Canadian federalism, given the fact that the provinces and their municipal partners account for such a high proportion now of the governmental financial and economic activity in this country. We insist that, whereas the federal government is the central government, it cannot afford to place its own problems ahead of those problems which confront Canadian federalism and Canada as a nation.

The Ontario questions

1. Does the federal government believe in approaching our financial problems in a spirit of partnership?

2. If so, does this not imply that we must look at the structure and problems of government finance at all levels taken together?

3. Will the federal government continue to insist that the provinces should go their own way, raise their own taxes, and concern themselves only with their own responsibilities, without regard to the needs or requirements of governments as a whole? Is this what you really want? Is this your view of Canadian federalism? Is this your view of the extent of the federal government's responsibility for the financial and economic future of this country?

4. Do you really wish to have a tax jungle? Do you really wish to have a balkanized economy? Do you really wish to have ten separate economic principalities in Canada? Do you really feel that the federal government can ignore the spirit engendered by the provinces in recent years for greater co-ordination and joint planning?

5. Does the federal government realize that its most recent budget, by adopting an elaborate device to avoid sharing an increase in income tax revenues with the provinces, has made it very difficult for provinces like Ontario to follow the federal government's advice and raise its own income taxes? Does it know that the social development tax, announced prior to this tax-sharing conference, will impose the equivalent of a 9 per cent increase in total income tax collections? What room will this leave us to make provision for those critical needs of education, health and economic development?

6. Does the federal government not believe, as we do, in a more progressive tax structure?

7. Does it realize that by urging the provinces to meet their expenditure responsibilities by raising their own tax revenues, it is encouraging greater reliance on regressive tax fields?

8. Does it believe that the provinces can independently raise their taxes without creating problems in turn for the federal government? Only recently, our increase in the tax on aviation fuel has caused concern

to the federal government. Is this not a small, but significant, indication of what could lie ahead?

9. Does the federal government believe, as many of its ministers have stated, that the big expenditure problems of the future lie in our cities?

10. Does it believe, as was concluded by the Smith and Select Committees on Taxation in Ontario, that the plight of the municipalities should be relieved not by greater reliance on the regressive property tax but by revenues originally obtained through the personal income tax and passed down through the provinces?

11. Does the federal government really believe that the problem of expenditure controls relates only to a few shared-cost programs? Or should a discussion of such controls not apply to all government expenditures, federal, provincial, and municipal? If the federal government believes that the institution of shared-cost programs leads to irresponsibility in spending, why is it introducing the medicare program in the present manner? If the federal government believes provincial governments should be in a position to act responsibly and set their own priorities in expenditure, is it prepared to turn over to us the fiscal equivalence of its budgeted medicare cost so that we can apply the money to our highest expenditure priorities?

12. If the federal government believes that all governments should work together in advance of their budgets to achieve co-ordinated views and take appropriate action, does it not seem strange that for the third year in a row the federal budget has been timed to come just before these financial discussions rather than just after, thereby effectively pre-empting our position? Is this now the pattern of federal-provincial co-operation?

13. Is the federal Minister of Finance prepared to sit down with his provincial counterparts in December or January to discuss the scope of the total government finance problem, our preliminary plans for all of our budgets, and to change its own plans in the light of the discussions that we have?

14. If we correctly understand your apparent course and if you are determined to follow it, do we understand, then, that we are to go back and plan our own future in our own way? Is that what you wish? If that is the case, we are prepared to do it and we are prepared to do it vigorously but we want to know, we want the people of this country to know and, in particular, we want the people of our own province to know exactly why we are being advised to go in this direction, and why we have been obliged to embark upon the course of self-determination in the provincial economy which we must then follow.

15. Can this pattern also be taken as a guarantee that the federal government will not intrude in the future in the provincial jurisdiction, notwithstanding recent evidence of increasing federal interest in matters such as securities legislation, educational broadcasting, certain aspects of transportation policy, and so on? If so, do you really think that you will be able to ignore the policies and the activities upon which the provincial governments might be obliged to embark?

16. What assurance is there of any future consistency in federal financial policies? We find it ludicrous and incongruous that the Minister of Finance should, in the same budget speech, urge fiscal restraint, point the finger of blame at rising costs of provincial programs in which the federal government participates, and then

insist on going ahead with medicare while saying that costs in that field are now under control. How does this reconcile with the table prepared recently in the Department of Finance which projects rapidly rising medicare costs over the next few years? What guarantee have we that, in a few years from now, the federal government will not dump the full responsibility for this program on the provinces and close off or limit its contributions after it has obliged the provinces to embark on this slippery slope?

Ontario taxpayer coerced

It is obvious that the social development tax is a premium for medicare. In turn, this coerces the Ontario taxpayer into a program, within the provincial jurisdiction, which the Ontario Government does not believe to be required as a government scheme when nearly 95 per cent of the people of the province already enjoy some form of medical care insurance. The fact that the federal tax increase is of an amount at least equivalent to the current federal estimate of its contributions to medicare in a full year is a clear indication of the federal intentions. We also regard it as nothing short of effrontery that this act should have been taken on the eve of a conference to discuss medicare, a conference which was urgently requested by all the Premiers during their meeting in Saskatchewan last summer.

We therefore insist that this money be turned back to us unequivocally from January 1, 1969 so that we may then embark upon our own course of public medicare at an appropriate time, support the public forms of medicare presently underway or assign this money to those matters which we regard as having greater priority.

We are not prepared to pass judgment on the policies of the other provinces where circumstances vary greatly. Let us merely note how the federal government's determination to persist with this program in Ontario, where corporations are now making considerable contributions to medicare for their employees from corporate funds, will shift the burden to individuals as taxpayers and thereby, once again, follow a regressive path from corporations to individuals.

We would point out to the federal government that we are undertaking an examination of the cost structure of all provincial programs and the means of controlling expenditures in those realms, with firm measures to follow. We would like to know what the federal

government proposes doing about costs within its own jurisdiction. In view of the failure of the federal government to anticipate the mounting pace of costs, what confidence can we have that it will not only anticipate where it is going but do something about the direction?

Plight of municipalities

In Canadian federalism today, nothing is more compelling than the plight of the municipalities. It is in the municipalities and the urban areas that the great need for governmental support is required. We are determined to help our municipal partners but we cannot do it alone. By insisting that we go our own way, is the federal government not turning its back on municipal problems? Does this mean that the federal government has no concern for municipal and urban problems and is unwilling to do anything about them? Does the federal government believe that the provinces should say to their municipalities what the federal government has said to the provinces: "If you need more revenues, raise them yourself?" Or does the federal government intend to break some of its own principles of federalism and offer money directly to the municipalities? Since the federal government can only help the municipalities through the provinces, where the constitutional responsibility for the municipalities lies, unwillingness to co-operate in meeting the financial needs of the province is tantamount to an unwillingness to help the municipalities. Surely, this is an unacceptable and irresponsible course for a federal government to adopt in Canada today. We believe that it can only be described as "unjust federalism".

Want answers

We have come here to put these questions and we expect to receive answers. We have come here in the belief that the future of Canadian federalism rather than the future of the federal government is at stake. We have come here to insist that financial problems are as important a matter for national unity as any matters in the general area of constitutional concern. No distribution of spending powers will have much meaning unless it is accompanied by a like distribution of revenue powers. If the federal government refuses to take these problems seriously, we want there to be no mistake about where the responsibility will squarely lie.

